Bruce Spencer - H.B. 502

From:	"Robert Fields" <RFields@FUMICO.net>
To:	<bspencer@smithlawmt.com>
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Subject:	H.B. 502

Having been made aware of House Bill #502 relating to Farm Mutual Insurance Companies I have some concerns as to the outcome of passage of this bill. The Farm Mutual Statutes allow the Farm Mutuals to conduct business without paying premium tax to the State of Montana, nor do they belong to the Guaranty Association which protects policyholders in the event of failure of the Company. For years the Farm Mutuals have written property and liability policies but have been unable to retain to any degree the liability portion of the risk. In the Insurance Business there is a major difference between property losses and liability losses. Property losses are settled quickly and have very little tail coverage applicable. Liability coverage however can extend out a number of years, depending on the severity and adverse parties affected. The legal costs associated with the liability exposure can run into the hundreds of thousands depending on the complexity of the loss. For this reason if the Insurance Company extending the liability isn't well capitalized, doesn't have the ability to pay legal costs for years to come, or have their reinsurance structured properly it will cause major damage to the financial results for that Company. My concern is if the Farm Mutuals want to keep part of the liability on a policy, they are operating like a regulated Insurance Company in the State of Montana and should pay premium tax, carry unearned premium reserves, and have their reserves certified. Paying the premium tax allows the policyholder the protection of the Montana Guaranty Association in the event the Farm Mutual becomes insolvent due to the additional exposure created by the liability losses and legal expenses associated with it. Thank you for allowing me to voice my concern regarding this piece of legislation.